

ECONOMIC PULSE

A MONTHLY REPORT ON MARYLAND'S ECONOMY

SEPTEMBER 2006

Recent Indicators

The national economy has slowed as a result of the downturn in the housing market, rising interest rates and high energy prices. A tight labor market is also keeping growth in check. The housing downturn is a major concern because the effects are beginning to be felt in other areas of the economy. The Commerce Department reported that the number of building permits, housing starts and completions in July were down sharply. Home sales are down at least 10 percent across the country and prices are generally flat as inventories have increased.

Preliminary estimates of Gross Domestic Product showed second quarter growth of 2.9 percent, compared to 5.6 percent for the first quarter. According to Commerce Department analysts, the slower GDP growth primarily reflected a deceleration in consumer spending on durable goods and a downturn in investment in equipment and software.

Overall, the economic indicators are mixed as the Commerce Department also reported July consumer spending rising at its fastest pace in six months and personal income growing at 7 percent over the past year. Retail sales rose 1.4 percent in July. Consumers enjoyed a break from rising gas prices as the average price has fallen over 40 cents since the same time last year. At the same time, the modest rate of job growth and earnings indicators helped ease concerns about inflation. But with core inflation at its highest rate in over a decade, many analysts expect the Federal Reserve to raise the federal funds rate at least once more this year.

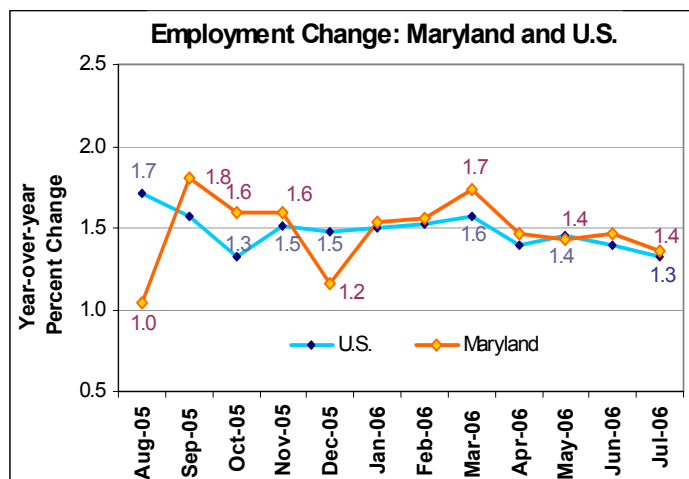
Job Growth

The July employment situation report released by the Bureau of Labor Statistics indicated that total nonfarm payroll employment increased by 113,000 in July. This increase was in line with the average monthly gain for the prior three months but was well below the average monthly gain for the prior year. Employment in professional and business services, health care, and leisure and hospitality continued to grow, while retail and wholesale trade employment was flat.

U.S. Job Growth

Over the year, professional and business services added 487,000 jobs, the health care industry added 274,000 jobs and food services added 228,000 jobs. The largest job losses nationally over the last twelve months have been in retail trade, information and communication.

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HIGHLIGHTS

State's Job Growth Continues at Steady Pace

Maryland's job growth rate of 1.4 percent in July was on pace with the nation's economy. The state's employers have added 34,800 net new jobs between July 2005 and July 2006.

Tight Labor Market Leads More to Seek Jobs

An estimated 18,400 job-seekers entered Maryland's labor market in July, one of the largest increases since 1990, according to DLLR.

Housing Market Getting Cooler

Signs of the cooling housing market are evident across the county, with July sales of existing homes down 12 percent over the year.

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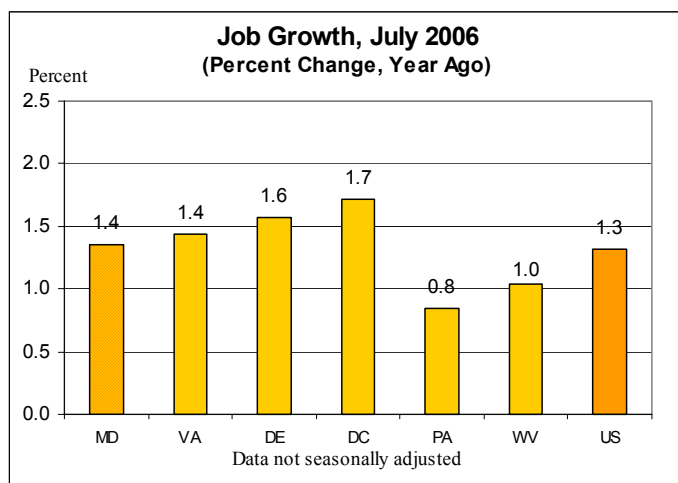
Job Growth (continued from page 1)

Maryland Jobs

The pattern of job growth in Maryland over the past few months reflects the slowing national economy. In July, the number of seasonally adjusted payroll jobs declined by 1,000. Maryland's year-over-year job growth rate stood at 1.4 percent in July, at essentially the same level it has been all year. The state has added 34,800 net new jobs between July 2005 and July 2006. The job growth leaders for the state continued to be education and health services and professional and business services. Financial activities and leisure and hospitality services also provided strong support.

Job Growth Ranking

Maryland's job growth rate of 1.4 percent in July ranked 29th among states. The rankings and job growth rates for selected jurisdictions include: the District of Columbia, 22nd (1.7 percent); Delaware, 25th (1.6 percent); Virginia, 28th (1.4 percent); West Virginia, 36th (1.0 percent); and Penn-



Nationally, the job growth rate registered 1.3 percent. States with the fastest job growth rate remain mainly in the West. The top 10 states included Nevada (5.1 percent), Arizona (4.8 percent), Utah (4.7 percent), Idaho (4.6 percent), Wyoming (3.7 percent), and Florida (3.3 percent).

Labor Force and Unemployment

Maryland's unemployment rate rose to an unadjusted rate of 4.5 percent in July. While unemployment has risen over the last two months, the state's year-to-date unemployment stands at 3.9 percent, compared to 4.4 percent for the first seven months of 2005. According to Maryland's Department of Labor, Licensing and Regulation, an atypically large increase in the number of jobseekers entering the market was the overriding factor in the July unemployment increase. Adjusting for seasonal variations, an estimated 18,400 jobseekers entered Maryland's labor market in July, one of the largest increases since 1990. As a further sign of a strong job market, initial claims for unemployment insurance (UI) in Maryland decreased 6.5 percent in July.

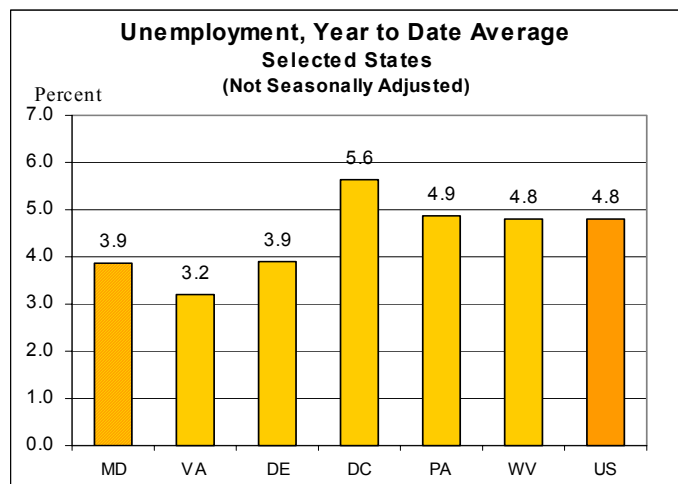
The nation's unadjusted unemployment rate rose from 4.8 percent to 5.0 percent in July. Nationally, initial UI claims increased 11.5 percent in July. Some economists estimate that about one-quarter of the gains in the labor market over the last two years have come from housing and that the slowdown in housing-related employment is driving the recent slowdown in overall job growth. The Conference Board Help-Wanted Advertising Index—a key measure of job offerings in major newspapers across America—was 4 percent below the previous month and the growth in the number of new ads has slowed over the last several months.

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Unemployment Rates (Percent)

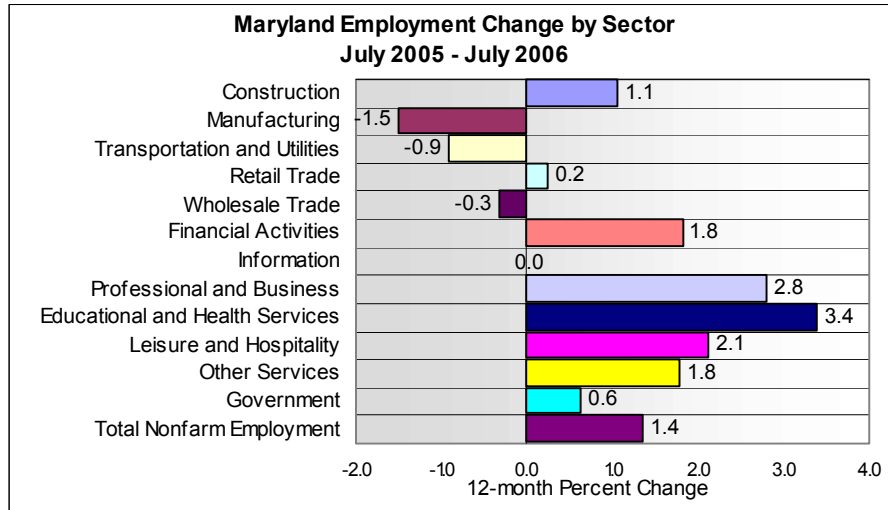
	Not Seasonally Adjusted		Seasonally Adjusted	
	MD	U.S.	MD	U.S.
July 2006	4.5	5.0	4.3	4.8
June 2006	4.1	4.8	4.0	4.6
July 2005	4.4	5.2	4.2	5.0

Source: U.S. Bureau of Labor Statistics



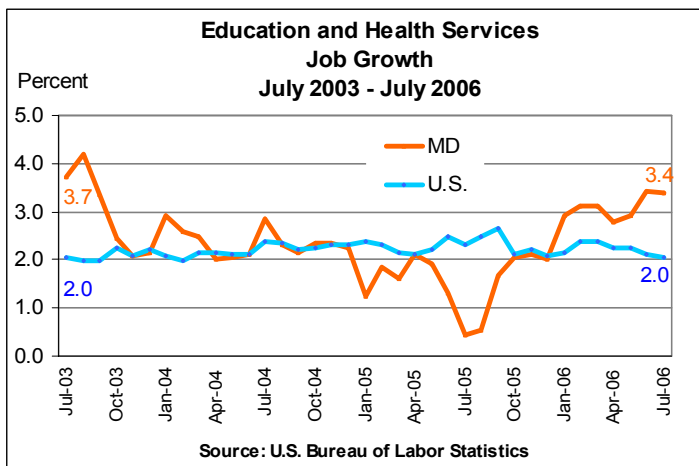
Jobs and Sectors

Maryland employers have added nearly 34,800 net new jobs from July 2005 to July 2006 as job growth rose 1.4 percent. The largest percent gains were in education and health services, which grew by 11,900 jobs over July 2005, an increase of 3.4 percent. Professional and business services, which include scientific, technical and consulting services, added 10,900 jobs. Leisure and hospitality services added 5,300 jobs and financial activities added 2,900 jobs over the year. Government employment also increased over the year by 2,800 jobs, most of these in local government.



Education and Health Services

The state's fastest growing sector, education and health services, has added jobs at an average rate of 3.1 percent this year compared to 1.5 percent in 2005. Educational services, which include instruction and training provided by schools, colleges, universities and training centers, added 3,500 jobs over the last 12 months. The health care field added 2,700 hospital jobs, 2,200 jobs in nursing and residential care facilities and 2,000 ambulatory care positions.



Other Industries

Employment in other services—repair and maintenance, personal services and business and professional associations—was up 1.8 percent in Maryland between July 2005 and July 2006. Factoring in seasonal variations in education, employment in the state's government sector was essentially unchanged. Government sector employment across the U.S. was also steady.

Professional and Business Services

Employment in professional and business services continued to grow in July, increasing 2.8 percent compared to the same period a year ago. Of the 10,900 net new jobs, over half (5,500) occurred in administrative and support industries. Professional, scientific, and technical services added 4,700 jobs over the year. The largest year-over-year rate of growth occurred in business support services (15.5 percent), accounting and bookkeeping services (5.9 percent), and scientific research (5.2 percent).

Retail Sales

Maryland's retail trade employment showed little change in July from a year ago, growing at a rate of 0.2 percent over July 2005. The fastest growing sector consisted of health and personal care stores, up 4 percent from a year ago. Grocery stores showed the first year-over-year employment gain in two years, adding 900 jobs since July 2005. The Federal Reserve Bank of Richmond reported generally sluggish retail sales in the region, with weakness in big ticket items but steady sales in other categories.

Nationally, the retail sector lost 89,000 jobs over the year, a decline of 0.6 percent. The biggest job losses occurred in sporting goods, book and music stores and department stores. The largest gains occurred in building material and garden supply stores as well as furniture and home furnishings stores.

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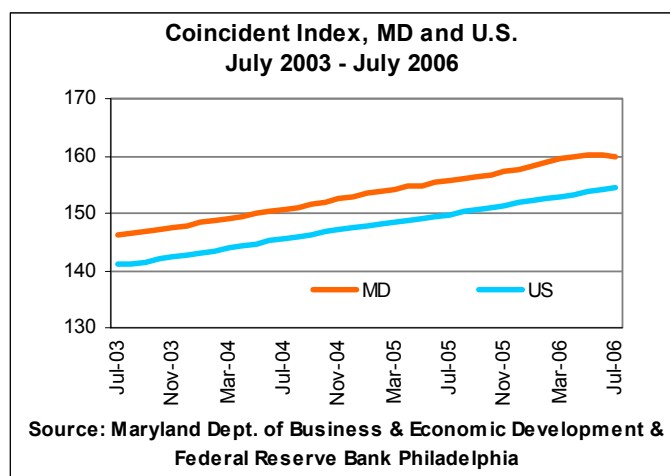
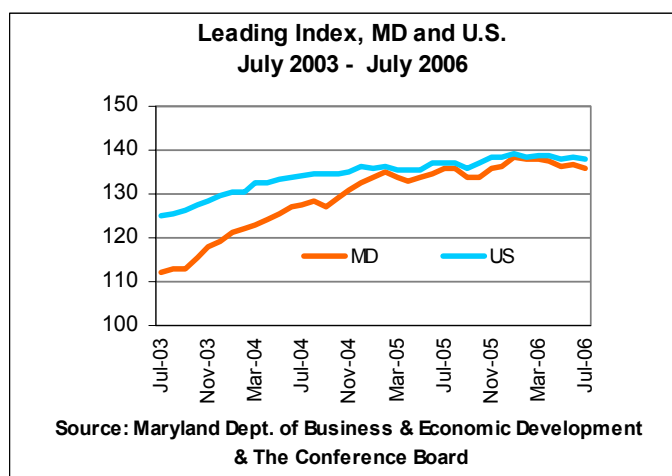
Maryland Leading and Coincident Indices

The Maryland index of leading indicators provides an outlook for the economy over the next six to nine months. After a slight rise in June, the index fell 0.8 percent in July to 135.6, the fifth decrease in the last six months. Three of the seven Maryland components contributed to the positive movement in the indicator, while only one of the three national components contributed to a positive impact. The sharp decline in new residential permits was a major factor in keeping the state indicator low.

The U.S. leading index also decreased slightly in July, but it is still 0.9 percent above its July 2005 level. Declining housing permits continued to be the largest negative contributor over this period. The leading index has decreased in four of the last six months. The Conference Board points to the recent behavior in the leading index to suggest that slow to moderate economic growth should continue in the second half of the year.

The Federal Reserve Bank of Philadelphia calculates a monthly coincident economic activity index for all 50 states and the U.S. This index is the broadest available statistical indicator of current economic conditions and produces a national index comparable to the state indexes. The trend of the index for each state is calibrated to the trend of its real gross state product. The movement in the Maryland coincident index closely parallels the U.S. index. The Maryland coincident index stood at 159.9 in July and increased 2.8 percent over the year. The U.S. coincident index increased 3.1 percent over the year.

The Conference Board's index of coincident indicators for the U.S. increased 0.2 percent in July. This measure of current economic activity has been increasing steadily since September 2005, but its growth moderated slightly in the second quarter of 2006 and in July. Over the year, the coincident index grew 2.1 percent, and employment and industrial production continued to be the major contributors to the positive trend.



Home Sales and Building Permits

Signs of the cooling housing market are evident across the country, with U.S. sales of existing homes down 12 percent over the year in July. Existing home sales in Maryland are down 26 percent over the year. The number of permits authorized for new residential construction also dropped sharply over last month. Despite the downturn in residential construction, the state's construction employment has risen 1.1 percent over the year. Commercial building and other construction have continued to sustain growth in this sector.

According to the National Association of Realtors metropolitan area survey, single-family home prices have cooled to single-digit rates in most areas after a full year of double-digit gains. With the inventory of existing homes more than doubling in some areas, real estate agents in the Mid-Atlantic region are reporting that clients are unable to complete home purchases because they could not sell homes located in other areas of the country. More sellers are competing for the pool of buyers, and the environment is changing from a sellers' market to a buyers' market.

Jobs and Sectors

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Manufacturing

Manufacturing jobs in Maryland declined 1.5 percent from July 2005 to July 2006. Food product manufacturing, with 3.1 percent growth, continued to be the one sector to gain employment over the year. The largest job losses were in transportation equipment (-9.1 percent) and computer product manufacturing (-4 percent). Overall, manufacturing industry earnings climbed 8.6 percent and average weekly hours worked in manufacturing rose about 3 percent.

Nationally, employment in the manufacturing industry was steady. Industry earnings were up 3.9 percent nationally, while average weekly hours in manufacturing gained 2.5 percent. The Census Bureau reported that new orders for manufactured goods decreased \$2.4 billion in July.

Leisure and Hospitality

The leisure and hospitality sector, including hotels, restaurants and entertainment, grew 2.1 percent between July 2005 and July 2006. Most of the job gains occurred in food services and drinking places, where employment has grown by 3,000 jobs over the year. Arts, entertainment and recreation employment grew by 1,900 jobs and accommodations added 400 jobs.

Tourism activity in the Mid-Atlantic region was generally good according to the July Federal Reserve Bank of Richmond's Beige Book report. Hoteliers along the coast reported increased bookings helped by good weather and increased short-term stays. As an indication of Maryland's strong tourism activity, hotel tax receipts were up 23 percent over the year. Baltimore/Washington International Thurgood Marshall Airport maintained positive growth of 2.5 percent in commercial passengers for the month of July 2006 over July 2005. Southwest Airlines Activity report exceeded 1 million total passengers during the month of July 2006—a first at BWI. BWI also welcomed over 4,100 people to safety as a primary "welcome home" airport for US citizens being repatriated from war-torn Lebanon. These passengers were counted as part of international arrivals for the month.

Labor Force and Unemployment

(continued from page 2)

Regional Unemployment Rate

At the local level, the burgeoning labor force caused non-seasonally adjusted unemployment rates to rise in all jurisdictions but Worcester County. During July, fourteen counties recorded unemployment rates below the statewide average. Howard County again posted the state's lowest unemployment rate (3.4 percent), and Baltimore City the highest (7.8 percent).

On a year-to-date basis, the state's unemployment rate is 3.9 percent. The Southern Maryland region has the lowest regional unemployment rate (3.1 percent) on average for the year. The Capital Region's unemployment rate is 3.4 percent through July. The year-to-date average for the Baltimore Region (4.2 percent) was above the state average. The Eastern Shore (4.4 percent) and Western Maryland (4.9 percent) recorded the highest regional unemployment rates on a year-to-date basis.

Maryland Unemployment Rates (Percent)

	July 2005	June 2006	July 2006
Maryland	4.4	4.1	4.5
Baltimore Region	4.8	4.4	5.0
Anne Arundel	3.9	3.7	4.2
Baltimore	4.6	4.2	4.7
Baltimore City	7.5	7.0	7.8
Carroll	3.6	3.3	3.7
Harford	4.4	3.7	4.4
Howard	3.4	3.1	3.4
Capital Region	4.0	3.7	4.1
Frederick	3.3	3.3	3.6
Montgomery	3.4	3.2	3.5
Prince George's	4.8	4.4	4.9
Southern Maryland	3.8	3.5	3.9
Calvert	3.7	3.5	3.8
Charles	3.7	3.4	3.8
St. Mary's	3.9	3.7	4.2
Eastern Shore	4.2	4.0	4.4
Caroline	4.3	4.4	4.7
Cecil	4.7	3.8	4.9
Dorchester	5.1	5.3	5.7
Kent	4.0	3.9	4.2
Queen Anne's	3.6	3.5	3.8
Somerset	5.4	5.4	5.5
Talbot	3.7	3.3	3.7
Wicomico	4.1	3.9	4.3
Worcester	3.8	4.0	4.0
Western Maryland	4.6	4.7	5.1
Allegany	5.8	5.4	5.9
Garrett	4.5	4.5	5.1
Washington	4.1	4.4	4.6

Source: MD Dept. of Labor, Licensing and Regulation

Selected Monthly Economic Indicators

Selected Indicators	Maryland					U.S.				
	Jul 2006	Jun 2006	Percent Change From Last Month	Jul 2005	Percent Change From Last Year	Jul 2006	Jun 2006	Percent Change From Last Month	Jul 2005	Percent Change From Last Year
Labor Market										
Labor Force (in thousands)	3,069	3,020	1.6	2,998	2.3	153,208	152,557	0.4	151,122	1.4
Employment (in thousands)	2,929	2,897	1.1	2,866	2.2	145,606	145,216	0.3	143,283	1.6
Unemployment Rate	4.5	4.1	9.8	4.4	2.3	5.0	4.8	4.2	5.2	-3.8
Sun Help-Wanted Counts, Baltimore MSA	7,056	7,494	-5.8	10,624	-33.6					
Initial Claims for Unemployment Insurance	16,936	18,108	-6.5	16,065	5.4	1,422,785	1,276,063	11.5	1,432,636	-0.7
Jobs and Sectors (Jobs in Thousands)										
Total Non-Agricultural Employment	2,602.8	2,618.4	-0.6	2,568.0	1.4	135,174	136,406	-0.9	133,413	1.3
Construction, Mining & Natural Resources	191.5	190.2	0.7	190.2	0.7	8,494	8,432	0.7	8,224	3.3
Manufacturing	138.7	138.9	-0.1	140.8	-1.5	14,277	14,359	-0.6	14,257	0.1
Trade, Transportation, Utilities	472.7	475.9	-0.7	473.0	-0.1	26,046	26,113	-0.3	25,970	0.3
Information	50.4	50.4	0.0	50.4	0.0	3,067	3,081	-0.5	3,080	-0.4
Financial Activities	162.5	162.2	0.2	159.6	1.8	8,389	8,385	0.0	8,205	2.2
Professional & Business Services	399.5	398.7	0.2	388.6	2.8	17,514	17,528	-0.1	17,027	2.9
Education & Health Services	363.4	364.7	-0.4	351.5	3.4	17,391	17,529	-0.8	17,043	2.0
Leisure & Hospitality	254.4	253.3	0.4	249.1	2.1	13,749	13,616	1.0	13,500	1.8
Other Services	120.7	121.3	-0.5	118.6	1.8	5,457	5,474	-0.3	5,458	0.0
Government	449.0	462.8	-3.0	446.2	0.6	20,790	21,889	-5.0	20,649	0.7
Average Weekly Earnings (\$)	736.8	737.5	-0.1	678.7	8.6	683.8	693.0	-1.3	658.3	3.9
Average Weekly Hours	40.8	40.5	0.7	39.6	3.0	40.9	41.3	-1.0	39.9	2.5
Business and Consumer Markets										
BWI Cargo (Metric Tons)	9,594	10,699	-10.3	10,660	-10.0					
BWI Passengers (Millions)	1.98	1.93	2.8	1.93	2.5					
Electric Meters Installed, Commercial	208	241	-13.7	228	-8.8					
Electric Meters Installed, Residential	869	1,052	-17.4	1,211	-28.2					
Electricity Sales, Commercial (Millions of MWh)	1.74	1.54	13.0	1.76	-1.1					
Electricity Sales, Residential (Millions of MWh)	1.06	0.86	22.2	1.16	-9.1					
Existing Home Sales (U.S. in Thousands)	7,188	8,459	-15.0	9,730	-26.1	604	699	-13.6	690	-12.5
New Auto Sales (U.S. seasonally adjusted)	36,662	38,718	-5.3	38,189	-4.0	1,471,100	1,388,200	6.0	1,766,000	-16.7
New Residential Permits Authorized	1,521	3,392	-55.2	2,062	-26.2	145,463	180,178	-19.3	182,916	-20.5
Indexes										
Leading Index	135.6	136.7	-0.8	135.7	0.0	138.1	138.2	-0.1	136.9	0.9
Coincident Index (Federal Reserve Philadelphia)	159.9	160.0	-0.1	155.6	2.8	154.5	154.1	0.3	149.8	3.1
Coincident Index (U.S.-Conference Board)						123.1	122.9	0.2	120.5	2.2
Help-Wanted Index	31	33	-5.8	47	-33.6	32	33	-3.0	40	-20.0
CPI (Washington - Baltimore, CMSA)	130.7	N/A	N/A	125.0	4.6	203.5	202.9	0.3	195.4	4.1
Stock Index	325.1	338.5	-4.0	324.9	0.1	1,276.7	1,270.2	0.5	1,234.2	3.4
Tourism										
Hotel /Motel Sales Tax (Millions of Dollars)	8.77	5.71	53.5	7.12	23.2					

Notes: Electricity data are for June

Data are not seasonally adjusted except where noted



Robert L. Ehrlich, Jr., Governor
Michael S. Steele, Lt. Governor

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